

AFFIRMED DATE: September 2, 2004
Docket No. R2004-10

2005 MOTORCYCLE RATES AND POLICY FORMS

Docket No. R2004-10

ORDER ON AIB 2005 MOTORCYCLE RATE METHODOLOGY FILING

The Automobile Insurers' Bureau ("AIB") submitted its Motorcycle Rate Methodology Filing (Exhibit 2) on May 28, 2004. The State Rating Bureau ("SRB") and the Attorney General ("AG") appeared in accordance with their statutory authority. On July 16, 2004, The Modified Motorcycle Association of Massachusetts, Inc., ("MMA") sought leave to intervene in this proceeding; on July 22, 2004, it withdrew that request. Evidentiary hearings were held on August 3 and 11, with the deadline for filing briefs established as August 17. On August 18, the MMA was granted leave to submit an *amicus* brief in this matter, and it did so on August 20.

In order to ensure that 2005 motorcycle insurance policy forms will be developed and rates will be calculated expeditiously, this order is being issued to address those issues presented in the AIB filing that are independent from those to be determined in the rate filing which has been, in part, submitted in the Main Rate portion of the case (Docket No. R2004-13), and which will be addressed later in these proceedings. Thus, this order addresses only the following issues: Operator Classification, Vehicle Classification, Territorial Rating, and the Multi-Vehicle Discount.

Based on our review of the records of these proceedings, and after consideration of the arguments presented, we conclude that the following will result in rates that are adequate, just, reasonable, and non-discriminatory.

Operator Classification, Experienced and Inexperienced. The AIB proposes the establishment of a 50 percent differential for inexperienced motorcycle operators, i.e., those licensed to operate a motorcycle for less than six years. No party disputed this proposal. The AIB's recommendation is consistent with ISO motorcycle experience differentials of 48 percent to 67 percent. We note that the MMA sought to clarify whether the experience to be considered in determining an operator's classification was limited to the operation of a motorcycle. The filing is clear that the standard the AIB proposes is the same that the MMA seeks: the number of years the insured has been licensed to operate a motorcycle.¹ We therefore adopt the AIB's recommendation for a 50 percent differential for inexperienced motorcycle operators.

Vehicle Classification, Engine Size. The AIB proposes to continue to use engine size as a basis for rating liability coverages (A-1/B, A-2, and PDL), but to eliminate engine size as a basis for rating the physical damage coverages, and instead base that rate on insured value. No party disputed this proposal. In its amicus brief, the MMA objected on the basis that the AIB would not guarantee that the claim payment made on the policy would necessarily match the insured value.² On a policy which insures a vehicle at "stated amount" rather than "agreed value" however, to require that physical damage claim payments should reflect a value other than the actual cash value of the vehicle at the time of the loss would open the door to fraudulent claims. The AIB should clarify policy language so that these terms are properly distinguished, and make available an "agreed value" endorsement. In all other respects, we hereby adopt the AIB's proposal.

Territory Rating. The AIB proposes to calculate territorial rating differentials for motorcycles based on the private passenger definition of territories, except that the manual rates for the ten Boston territories would be equivalent. No party objected to this proposal.

¹ ISO data, however, defines inexperienced motorcycle operators as those under the age of 25. We note this distinction, but, on consideration of the record presented, agree with the MMA that we should adopt the AIB's definition.

² We note the MMA's objection to the specific rate level. Consistent with the limitation on this order, consideration of that issue is premature.

The MMA acknowledged that it had requested the use of territorial rating differentials, but now objected, in part to the requirement in the AIB filing that the territorial rates be determined on a revenue neutral basis, and in part to the possibility that the change would place an unfair burden on a higher number of consumers living in higher-rated territories, at a savings to smaller numbers living in lower rated territories.³ However, the purpose of the requirement of revenue-neutrality is to ensure more accurate rating of coverages in a manner which does not affect the overall statewide average rates charged. The AIB's filing demonstrates that its proposed territorial rating factors would reasonably distinguish between heterogeneous classifications of risk, and it is hereby adopted.

Multi-vehicle Discount. At the Commissioner's request, the AIB considered, and rejected, including motorcycles within the scope of vehicles eligible for the multi-vehicle discount, which is currently available to some policyholders who insure two or more private passenger automobiles with the same insurer (Rule 19). After consideration of all evidence and arguments, we decline to order the extension of the multi-vehicle discount this year. We will, however, direct the AIB to present, for 2006, a more comprehensive analysis of whether that discount should be extended to experienced motorcycle operators whose motorcycles are insured for the full policy year. We also urge the AIB to consider whether other policy modifications, such as partial-year policies, would be advisable.

So Ordered.

September 2, 2004

Susan G. Anderson, Esq.
Presiding Officer

Stephen M. Sumner, Esq.
Presiding Officer

Affirmed.

Julianne M. Bowler
Commissioner of Insurance

³ As noted above, consideration of rate level issues is premature.